What Stocks Should You Put in Your RRSP?

Description

As the RRSP contribution deadline approaches, here are some things to keep in mind when deciding how to invest your savings.

1. This is the place for U.S. dividends

If you only hold Canadian stocks, it's very difficult to achieve proper portfolio diversification. So practically all of us should hold at least some U.S. names.

But if you hold American dividend-paying stocks, you shouldn't hold them in non-registered accounts. If you do, then the Canadian government treats these dividends as interest income, which, of course, means a bigger tax bill. And if that wasn't enough, then the U.S. government takes a withholding tax on these dividends, which can be a hassle to get back.

A TFSA is also no place to hold U.S. dividend stocks, because the U.S. withholding tax is unrecoverable in this account.

An RRSP is easily the best place to hold these stocks, simply because you end up paying zero taxes on U.S. dividends. The American government doesn't collect any withholding tax, thanks to a tax treaty, and the Canadian government doesn't tax any investment income in an RRSP.

2. High-yielding Canadian dividend stocks belong in a TFSA

Let's suppose you're looking at a stock like **BCE Inc.** (TSX:BCE)(NYSE:BCE). The company is very popular among dividend investors, thanks to its rock-solid business model and its 4.7% yield. But at the same time, BCE trades for about 19 times earnings, a very high number for a company with limited growth prospects.

So if you're looking to invest for the long term, which is typically what an RRSP is used for, then BCE may not be your best bet. On the other hand, if you're looking for some dividend income–or are looking to preserve capital in the short term–then BCE is a much better option. This kind of strategy is more often employed in the TFSA.

3. You want stocks for the long term

First of all, buying stocks right now may seem scary. But if you are saving for retirement, then you should look past any short-term noise.

Secondly, your best bet is to buy companies that you know will still be around in 50 years. Doing so should save you the trouble of always checking your portfolio. Stocks like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) certainly fit the mould.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

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1. NYSE:BCE (BCE Inc.)
2. NYSE:CNI (Canadian National Railway Company)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:BCE (BCE Inc.)
5. TSX:CNR (Canadian National Railway Company)
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Date
2025/07/21
Date Created
2016/02/17
Author
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